

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for office, communications, computer and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred. For the year ended June 30, 2002, total operating lease expenditures were \$59.2 million for Primary Government, \$26.9 million for Universities, and \$4.2 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2002 are (dollars in thousands):

Fiscal Year	Operating Leases			Capital Leases		
	Component Units			Component Units		
	Primary Government	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2003	\$ 43,967	\$ 15,575	\$ 4,076	\$ 62	\$ 878	\$ 303
2004	35,626	11,967	3,120	62	788	288
2005	27,004	9,584	2,201	62	455	215
2006	23,038	5,565	487	62	169	213
2007	14,794	2,058	156	26	13	221
2008 - 2012	20,350	4,147	—	—	—	1,238
2013 - 2017	1,750	59	—	—	—	279
2018 - 2022	1,750	41	—	—	—	—
2023 - 2027	1,750	24	—	—	—	—
Total Future Minimum Lease Payments.....	\$ 170,029	\$ 49,020	\$ 10,040	274	2,303	2,757
Less: Amounts Representing Interest				58	264	270
Present Value of Future Minimum Lease Payments	\$ 216	\$ 2,039	\$ 2,487			

Falls Lake Operating Lease. The State has leased from the federal government approximately 40,000 acres of land and water areas at Falls Lake, located in Wake and Durham counties. The agreement allows the State to operate the areas for recreational purposes, and in return the State has agreed to pay for one half of the development costs. Payments, which have not yet begun, are to take place over 50 years with an option to prepay. Current cost estimates indicate that the State has a total obligation of \$57.8 million, including \$31.4 million in interest and \$26.4 million in principal. Annual payments are estimated to be \$1.156 million beginning in fiscal year 2002-2003. Since the costs and payment period are yet to be finalized, this commitment has not been included in the above table.

At June 30, 2002, fixed assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	Component Units	
	Governmental Activities	University of North Carolina System	Community College
Machinery and Equipment	\$ 296	\$ 5,106	\$ 2,958
Other	—	772	—
Less: Accumulated Depreciation	—	(2,171)	(286)
Total Fixed Assets	\$ 296	\$ 3,707	\$ 2,672